

# **FISCAL NOTE**

## **SB 2846 - HB 3362**

March 10, 2006

**SUMMARY OF BILL:** Exempts any person or company producing a film or other video program in Tennessee from income tax, business tax, franchise and excise (F&E) tax, and sales and use tax.

### **ESTIMATED FISCAL IMPACT:**

**Decrease State Revenues – Net Impact – Exceeds \$800,000**

**Decrease Local Govt. Revenues – Net Impact – Exceeds \$150,000**

**Other Fiscal Impact - Some residual economic impacts could materialize from the enactment of this legislation. However, determining the extent of these impacts is very problematic. Any such effects are not sufficiently measurable to be included in the quantifiable fiscal impact of this bill.**

#### Assumptions:

- According to the Department of Revenue (DOR), at least 1 film production company and at least 20 video production companies are domiciled in Tennessee.
- Hall income tax (HIT) is applicable to interest income derived from bonds and dividends derived from equity investments, assessed at a rate of 6%, and would apply only to in-state production companies that earn any such income.
- Assuming each of the 21 in-state production companies have average investment earnings of \$3,000 per year, the decrease to HIT revenue is estimated to be \$4,000 (21 companies X \$3,000 X 6% = \$3,780).
- Business tax is applicable to entities making sales of various products or engaging in the business of rendering services in the state for a price, commission, fee, or wage.
- Any sales made in Tennessee of film or video that was also produced in Tennessee would be exempt from business tax.
- Business tax revenue is estimated at \$124,300,000 in the Governor's recommended budget for FY06-07.
- Assuming 1/25<sup>th</sup> of 1% of all business tax revenue is derived from sales occurring in the state of film or video that were also produced in the state, the decrease to business tax revenue is estimated to be \$50,000 (\$124.3 million X 1/25<sup>th</sup> X 1% = \$49,720).
- Business tax is apportioned 43% to state and 57% to local government.
- The decrease to state revenues resulting from business tax exemptions is estimated to be \$21,500 (\$50,000 X 43% = \$21,500).

## **SB 2846 - HB 3362**

- The decrease to local government revenues resulting from business tax exemptions is estimated to be \$28,500 ( $\$50,000 \times 57\% = \$28,500$ ).
- According to the DOR, approximately twenty-nine one-thousandths of 1% (0.029%) of total F&E tax collections are derived from film production companies filming in Tennessee.
- F&E tax collections have been estimated at \$1,448.4 million in the Governor's Budget for FY06-07.
- The decrease to state revenues resulting from F&E tax exemptions is estimated to be \$420,000 ( $\$1,448.4 \text{ million} \times 29/1000 \times 1\% = \$420,036$ ).
- T.C.A. 67-6-530 currently allows sales and use tax refunds to film production companies provided they spend a minimum of \$500,000 within a 12-month period. Therefore, enactment of this legislation would allow additional sales and use tax exemptions for companies that spend some amount less than \$500,000 in Tennessee.
- Assuming 20 film production companies spend some amount less than \$500,000 in Tennessee, and for these companies the average expenditure is \$275,000, the base would be \$5,500,000 ( $20 \text{ companies} \times \$275,000 = \$5,500,000$ ).
- State sales tax rate is 7%.
- The decrease to state revenues resulting from additional sales and use tax exemptions is estimated to be \$385,000 ( $\$5,500,000 \times 7\% \text{ state rate} = \$385,000$ ).
- The local option tax rate is 2.25%.
- The decrease to local government revenues resulting from additional sales and use tax exemptions is estimated to be \$123,750 ( $\$5,500,000 \times 2.25\% = \$123,750$ ).
- The net decrease to state revenues is estimated to exceed \$800,000 ( $\$4,000 \text{ from HIT exemptions} + \$21,500 \text{ from business tax exemptions} + \$420,000 \text{ from F\&E tax exemptions} + \$385,000 \text{ from sales and use tax exemptions} = \$830,500$ ).
- The net decrease to local government revenues is estimated to exceed \$150,000 ( $\$28,500 \text{ from business tax exemptions} + \$123,750 \text{ from sales and use tax exemptions} = \$152,250$ ).
- Some residual economic impacts could materialize from the enactment of this legislation. However, determining the extent of these impacts is very problematic. Therefore, the fiscal impact of these secondary effects is considered undeterminable.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director